

800 FINANCIAL MANAGEMENT

800 OVERVIEW

Ensuring that the fair has adequate resources to carry out its mission and program is a board responsibility. This commitment includes protecting the fair's accumulated assets and ensuring that current income is managed properly. Fairs are incorporated and/or granted tax-exempt status by state and federal laws to fulfill a public need, and the board's financial stewardship obligations must be exercised in conformance with all applicable statutes and regulations.

801 ANNUAL BUDGET

Every fair should have a mission, a long-range plan, and an annual budget. These three documents enable the board and the fair to measure its financial condition and progress toward its goals and objectives. The budget approved by the board allocates resources to implement operations and programs planned for the coming year. More importantly, the budget serves as the basis for controlling activities and facilitates the evaluation of performance of both the operating units and people within the organization. The board is responsible for monitoring whether the CEO is properly administering revenue and other resources and the fair is operating within its budget. This means the board must request, review, *and understand* financial reports provided by the CEO, committees and subcommittees in order to make informed decisions.

802 STATEMENT OF OPERATIONS

Fair management has the primary responsibility for preparing and disseminating its financial statements, or more commonly known as the statement of operations (STOP). The objectives of the STOP are to provide information that is useful in fiscal decisions and to provide information to assess the cash flow of the Fair. The STOP should also provide information about the Fair's resources, claims to those resources, and changes in them during the year from transactions, events, and circumstances at the Fair.

The board should ensure that management provides monthly financial information that is comprehensible and concise so the board and others with a reasonable understanding of business and economic activities can study the information with reasonable diligence. Financial data allows management and the board to assess the expected cost, risk, and return of proposed projects and activities based on historical trends and results of operations.

Fairs are statutorily required to submit an annual STOP to CDFA on January 20th of each year in order to be eligible for State funding.

803 ELIGIBILITY TO RECEIVE AND UTILIZE STATE FUNDS

Statutes governing fairs require that every fair comply with fiscal and administrative standards established by CDFA to be eligible to receive state funds or to utilize state assets. Specific statutory reporting requirements for fairs include:

- File an annual statement of operations with CDFA (all Fairs).
- Submit to CDFA for review and approval every five years a written agreement specifying the operational, financial, and administrative responsibilities between the entity producing the fair and the host county, or the host agency (county and citrus fruit fairs only).

Other reporting requirements established by CDFA are disseminated to fairs via F&E policy circular letters, annual budget instructions, etc. Two key reporting requirements include:

- File for approval an annual operating budget with CDFA (all fairs).
- File an annual audit report conducted by the State, county, or independent auditing firm with CDFA (county and citrus fruit fairs only).

Budget approval is required prior to the expenditure of State funds during the budget year. Penalties may be applied if a fair does not adhere to budget requirements. Budget approval for fairs that do not meet the applicable standards is contingent upon (i) providing additional documentation to CDFA as requested, and (ii) participation in possible budget meetings with the Division of Fairs and Expositions. A detailed display of budget review and approval standards and conditions is provided in Appendix AA at the end of this Chapter.

Automation F&E has created an automated budget preparation diskette that is available to all fairs. This program automatically performs the required budget calculations as the fair enters its own revenue and expenditure data.

804 STATE FUNDING FOR THE NETWORK OF CALIFORNIA FAIRS

License fees generated from wagers at horse racing and satellite wagering facilities provide revenues for the support of the network of California fairs. License fees representing a percentage of total wagering receipts are deposited into special accounts in the state treasury -- the Fair and Exposition Fund (F&E Fund), and the Satellite Wagering Account (SWA). These resources are limited and must be utilized in an efficient manner.

Revenues derived from the F&E Fund and the SWA are used to fund fair programs and activities, which include:

- Local (Base) Allocations to fairs
- Health and Safety Projects
- American with Disabilities Act (ADA) Projects
- Agricultural Education
- Energy Conservation & Generation Program
- Bond Debt Service
- Wagering Facility Improvements
- CDFA (F&E) Support
- CDFA Fair Audits
- California Construction Authority (CCA) baseline budget
- California Horse Racing Board (CHRB) Support
- Other programs as approved by the Joint Committee on Fair Allocations and Classification (e.g., Livestock Quality Assurance, Training)

F&E is responsible for prudently managing funds available to fairs from state sources. F&E prepares an annual expenditure plan on behalf of the Department for review and approval by the Joint Committee on Fairs Allocation and Classification. When appropriate, the Department works with the California Construction Authority to arrange for the sale of revenue bonds (repaid from the SWA) to provide capital to underwrite the costs of maintaining and improving fair facilities. For a complete detailed overview of all programs, please refer to Appendix BB at the end of this Chapter.

804.1 Base Allocations

To provide for equitable distribution of available state funds, F&E established an allocation policy providing support within seven budget-related classification levels. Thus, the smallest fair organizations, those in levels I through IV, receive the largest annual allocation of revenues, with level I fairs receiving the greatest allocation. Many of these fairs are located in small communities with limited opportunities for sponsorships or increased attendance.

HANDBOOK: Recommended Guidance for Fair Board Directors

The Department has designed base allocations to all fairs according to their classifications. Base allocation for 2001 budget year follow (refer to the Network of California Fairs 2001/2002 Expenditure Plan for additional information. This is available from your fair CEO or by contacting F&E at 916.263.2955)

Class Level	Allocation Criteria			# of Fairs Per Class	2000/2001 Local (Base) Allocation	* 2000/2001 Increase
	Operating Revenue (\$1,000's)	Fair Attendance (1,000's)	Perm/Temp Staff			
I	Up to 200	Up to 20	Up to 7	13	\$160,000	\$20,000
II	200 - 450	20 - 40	7 - 10	20	\$135,000	\$15,000
III	450 - 1,000	40 - 80	10 - 20	19	\$114,000	\$10,000
IV	1,000 - 3,000	80 - 175	20 - 40	9	\$100,000	\$5,000
V	3,000 - 6,000	175 - 250	40 - 80	6	\$40,000	-
VI	6,000 - 10,000	250 - 400	80 - 120	6	\$35,000	-
VII	Over 10,000	Over 400	Over 120	3	\$35,000	-
Special Events (Supplemental allocation):						
Grand National Rodeo (1A DAA)					\$140,000	-
Great Western Livestock Show (24th DAA)					\$40,000	-
San Benito County Saddle Horse Show					\$40,000	-

Fairs not receiving base allocation in Fiscal Year 2000/2001:

California State Fair and Exposition

1st DAA (deactivated)

5th DAA (deactivated)

*Continuance of additional base allocations proposed for 2000/2001 is dependent upon future years' fund condition.

805 Other Fair Revenues

By far the largest revenue source for California fairs is operating revenue. Operating revenue is comprised of many sources including paid fair attendance and interim rentals. Fundraising sponsorships and grants are also a vital revenue source to fairs.

805.1 Fund Raising

The fair's effectiveness depends on its capacity to fulfill its mission. One component of adequate capacity is resources. Because the board is responsible for ensuring that the fair has adequate resources to support its program for any given year, one of the board's most significant roles in support of the fair is to plan the fair's fundraising strategy. The board needs to know the fair's existing revenue pattern, based on recent history, and then set goals for the budget year for each source, increasing whichever revenue categories are appropriate. This planning effort will provide guidance to the CEO in implementing a fundraising program that reflects the board's priorities.

805.2 Sponsorships

A sponsorship is a gift of funds, services or products, in exchange for specified ways in which that gift will be acknowledged in public view. For example, a local supermarket or supermarket chain may make an annual contribution to the fair in exchange for the opportunity to provide a coupon with every admission ticket purchased which gives the recipient an incentive to shop at that particular market or chain.

805.3 Grants

Individual fairs have successfully sought grants from private foundations and/or government agencies (other than CDFA). An important consideration in any fair's grant-seeking strategy is to determine the fair's eligibility to receive grants from private foundations. Most foundations require their grantees to be tax-exempt under the provisions of Section 501(c)(3) of the Internal Revenue Code, which defines charitable organizations.

806 REVENUE PROTECTION INSURANCE

The California Fair Services Authority (CFSA) administers the Revenue Protection Insurance program, in which all fairs are eligible to participate through payment of annual premiums. This voluntary program provides participating fairs risk coverage for certain revenue-interruption losses from a segregated risk pooling arrangement. This important program enables fairs to protect their operations against revenue losses due to bad weather, or other unexpected circumstances. Detailed information pertaining to this program is available by contacting CFSA at 916.921.2213 or by e-mail at www.cfsa.org.

Appendix AA

REVIEW AND APPROVAL OF FAIR BUDGETS

ITEM	STANDARD OR CONDITION
Budget Planning Philosophy	While there are wide variations of acceptable budget planning philosophies, the California Department of Food and Agriculture generally recommends historical trend budgets.
Reporting Requirements	Budget package requirements have been met, including all required data and supporting documentation.
Budget Versus Actual Results	Significant variances of actual performance against budget should be reasonably explainable.
Budget Appears to be Realistic	Current-year projections and the degree of growth contained within the annual budget proposal appear realistic and reasonable based on past financial trends and performance.
Reserves	Since a state-wide contingency fund does not exist to finance unforeseen liabilities at fairs, maintaining a reserve balance totaling 10 to 15% of the fairs' prior year actual expenditures is recommended, but not required .
Audit Status	Fair is in substantial compliance with applicable rules, regulations and procedures, OR has submitted a written plan, approved by the board, for complying with recommendations in most recent audit report.

Appendix BB

The following table briefly describes programs recommended for funding in the Division of Fairs and Expositions 2000/2001 Expenditure Plan (the Expenditure Plan is available from your fair CEO or by contacting F&E at 916.263.2955)

COMMITTED

California Horse Racing Board Support (CHRB)	Budget Act appropriation for operational support of the California Horse Racing Board (B&P Code section 19620.1(b)).
Fairs and Expositions (F&E)	Budget Act appropriation for operational support of F&E (B&P Code sections 19606.1 and 19620).
Audit Program	Budget Act appropriation for annual fiscal and biennial compliance audits of all DAA's and selected county fairs. Assures individuals entrusted with public resources are accountable to the public and other levels and branches of government.
Unemployment Insurance	Budget Act appropriation to offset fairs' unemployment costs. (B&P Code section 19620.1(b)).
Retired DAA Employee Benefits	Transfer to General Fund to cover the cost of health benefits for retired DAA employees (as required by the Budget Act).
Bond Debt Service	Pays debt service on bonds issued for the construction and maintenance of fair facilities.
Supplemental Purses	Provides appropriation to supplement purses at Northern California fairs and Los Angeles County area (B&P Code sections 19605.9 and 19606.3).

DISCRETIONARY

Local (Base) Allocation	Provides funds for discretionary use by local fair organizations with classification criteria that assigns greater support to level I through IV fairs.
Education & Fair Training	
Agricultural Education	Provides funds on a matching basis for agricultural education programs at fairs, such as "Agriculture in the Classroom" and Department of Education programs.

Compliance Training	Provides funding for the development and delivery of training to ensure compliance with F&E policies and/or state laws (accounting, contracting, purchasing, etc.).
Professional Development	Upon F&E approval, provides training funds for fairs to attend seminars and workshops on emerging issues.
Fair Provided Training	Upon F&E approval, provides funds for fairs to conduct industry related training (livestock ethics, maintenance strategies, etc.). Training will be targeted to benefit level I through IV fairs where needs have been identified.

Infrastructure/Capital Improvement Programs

Capital Improvement Program	Provides funding for capital improvements to fair facilities. Funds distributed are maintained in “holding accounts” for individual fairs. Balances remaining in individual Fairs 2000 (see Fairs 2000 program description on the following page) accounts will be redirected to individual capital improvement accounts.
Deed/Title Search and Analysis	Identify and protect State owned fair properties by conducting title search and analysis to determine ownership, deed restrictions, and conditions of title. In addition, this project will include the development of a centralized database that will incorporate RESD State Property Inventory listings for all state owned DAA sites and maintain records of subsequent improvements to those sites.
Equipment Exchange Program	Provides funds to replace fair equipment.
Health Department Program	Provides funding for inspection of fair facilities by California Department of Health Services to ensure they meet recognized standards for health and safety.
Infrastructure Study and Database	Provides funding for fair site assessment of all infrastructure needs at fairs (buildings, parking, water, sewer, etc.). This project will merge and consolidate data from Department of Health Services and other sources.
Revenue Generating Program	Provides funding on a matching basis to generate new net revenue sources for fair organizations.
Americans with Disabilities Act (ADA)	Provides funding for identified ADA facility improvements.

Administrative and Fiscal Assistance (formerly Intervention Program)	<p>Provides funding for F&E to:</p> <ul style="list-style-type: none"> • Pay outstanding debts of closed operations • Plan future fair funding concerns • Establish contingency reserve for costs associated with management oversight • Pay student internship wages • Pay contingent liabilities <p>Certain aspects of this program are targeted to assist fair levels I through III. As a last resort, CDFA may assume all rights, duties, and powers of a DAA if it is determined that there is insufficient fiscal or administrative control (B&P Code Section 19622.3 (c)).</p>
Cal Expo Pro Rata Reimbursement	Reimburses Cal Expo pro-rata costs (overhead), not to exceed \$265k annually.
California Fairs and Arts Alliance	A collaboration of F&E and California Arts Council to support fair and art organizations. Intended to attract audiences through local fair partnerships. F&E and California Arts Council to provide equal funding.
Contingencies and Special Projects	Includes legal billings and contingent liabilities (Department of Justice & CDFA); Employee Assistance program cost for DAA's; special projects (CEO search, sexual harassment prevention, etc.); policy development (noise management, gun shows, policy manual production, etc.).
Economic/Social/Community Benefit Study	Provides funds to develop an economic profile of each local fair organization, ultimately producing an economic/social/community benefit assessment of the network of California fairs and associated service members.
Fair Relations and Communication	Creates and disseminates a quarterly newsletter as a communication tool within the network of California fairs. Disseminates other fair related information.
Fair Networking Database	Funds for the development and maintenance of a database as a tool to keep local fair organizations informed and to manage resource lists (media contacts, business and agricultural leaders/spokespersons, etc.).

Fairs 2000 Program	This line item was previously an F&E funded program intended to develop strategic plans for all fairs. Balances remaining in individual Fairs 2000 accounts will be redirected to individual capital improvement accounts. (This project is in no way related to the Fairs 2000, Inc. trade organization.)
Millennium Flex Program	An incentive program by which level I through VII fairs may submit proposals to receive funding for (partial list): <ul style="list-style-type: none"> • Travel and registration expenses to attend compliance and technology training (accounting, purchasing, contracting, software, etc.). • Purchase of information technology upgrades and office equipment (e-mail and internet access, fax machines, photocopiers, computer hardware and software, e-commerce, e-government, etc.). Real estate analysis development and planning. • Exploration of alternative financial opportunities. • Backstretch improvements.
Reinvention Project	Program has been discontinued.
Health & Safety Programs	
Emergency Fund	Provides funding for unexpected health and safety repairs.
Major Maintenance Program (MMP)	Provides funding for identified capital improvement projects to reduce public exposure to health and safety risks (plumbing, sewer, water supplies, electrical upgrades, etc.).
Property Insurance (formerly General Facility Support)	Provides funding for property insurance to protect fair facilities.
Infrastructure Program	Addresses infrastructure issues that provide long-term and overall facility benefit. Identifies projects needed in fair facility maintenance plans in the same manner as Health and Safety projects. Suspending additional allocation for policy review.
Parimutuel Programs	
Race Track Preparation	Provides funds to supplement the purchase and installation of track preparation materials. Program ensures consistency in track preparation, reducing the risk of injury to horse and jockey.

Wagering Facility Improvement (formerly Parimutuel Improvement)	Supports improvements to live horse racing and satellite wagering programming and facilities based upon the priorities identified in industry-wide facility surveys (backstretch, paddock, grandstand, etc.)
Satellite Wagering Facility Construction (Lancaster)	Construction of a new satellite wagering facility for the 50th DAA (Lancaster), upon successful relocation of the fair organization. Construction expected to begin October 2000.
California Construction Authority (CCA)	Funds the operational support of the CCA, which provides engineering and construction services to fairs.